SENATE TAXATION
EXHIBIT NO. 8
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BILL NO. NR

Comments on Property Tax Reappraisal

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Class 3 Agricultural Land

For property tax purposes, agricultural land is divided into the classes below (see Table 1).

Table 1. Agricultural Land Classifications.

	Representative Use	% of Value (2008)
Tillable Irrigated	Hay	12.5
Tillable Non-irrigated	Wheat	45.1
Grazing	Forage or AUM	30.1
Wild Hay	Hay	4.6
Other		6.8

The other category actually is a combination of two classes.

The assessed values for agricultural land are based upon productivity in the representative use. Much of the agricultural land productivity ratings have not been updated for many years and in some cases not since the mid 1960s and early 1970s. Failure to update these productivity ratings results in inequitable treatment across agricultural land classes and within agricultural land classes. Grazing land productivity and wild (other non-irrigated) hay productivity has not exhibited as dramatic a trend as wheat yields over the last 40 years (see Figures 1 and 2). Non-irrigated hay yields are probably an over estimate of the productivity trend in grazing.

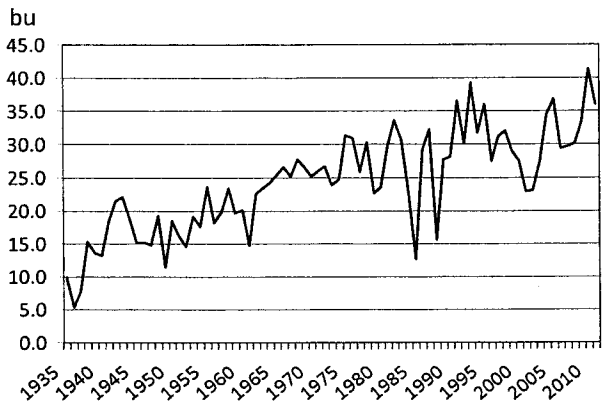

Figure 1. Wheat Yields (MASS).

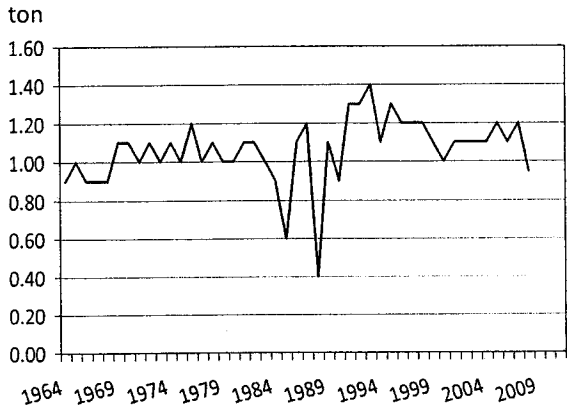

Figure 2. Non-irrigated Hay Yields (MASS).

Soils Approach to Productivity Estimation: Involves at least three files.

- Soils maps (Surgo File): Used to extract acres of soil type by location, mostly completed over 25 years ago

- Productivity (NASIS File): For each soil type
  - Soil characteristics
  - Climate information
  - Other descriptive information
  - Various productivity measures

- Ownership (Cadastral File): Identifies property owners

Productivity Measures

- Wheat Yield
  - Productivity or yield was predicted, by a model, from soil characteristics, climate, and other variables
  - Easily updated

- Forage
  - Three productivity estimates are provided: pounds of forage with above normal, normal, and below normal conditions which are converted to AUMs
  - Both aggregate pounds of forage and pounds of forage by vegetation type are included
  - Productivity estimates were based on clippings, judgment, and some modeling
  - Not easily updated

- Process is very complicated and difficult requiring substantial resources and time of competent personnel

- Issues
  - How was productivity estimated in areas where the soil survey was not complete?
  - Some areas have forage productivity in the file as 0. Sometimes these were because of an actual estimated productivity of 0 (e.g. rock outcroppings) and other times (apparently) because of omission. How was this handled?
  - How was forage productivity (above normal, normal, below normal) converted to AUMs?
  - What is the accuracy of the model used to predict wheat yields compared to actual yields?
  - Were there any comparisons made between actual forage production and forage production extracted from the file?

- Was the forage amount, used to calculate the AUMs, palatable to cattle or was it a more aggregate vegetation that included sagebrush, juniper, or other vegetation not usually consumed by livestock?
- Precipitation is an important influence on dry land productivity. Was there any analysis to insure that rain shadows and other local weather anomalies were correctly included?
- Do the files contain productivity estimates for irrigated land and if not how were these values obtained?
- Were water costs handled as they have been historically?
- At the time the soils were mapped, many different contractors and personnel were involved. As a result there are productivity differences that are idiosyncratic to those involved rather than actual differences in productivity. Did the quality control procedures identify any of these types of problems and how were they dealt with?

➢ Comment: In earlier other work, we felt comfortable with estimating forage productivity aggregated to the township level. However when we tried to estimate the productivity on smaller tracts our comfort level was reduced. The project we were working on did not require refinement below the township level, and if we errored, we wanted to error by overestimating productivity. Many of the shortcomings of the soil survey approach become masked with the averaging across larger areas. This does not mean that the soils approach should necessarily be abandoned for small tracts of land but that the process will require substantial more refinement (more than in our earlier effort) and possibly less than total dependence on the soils map.

Appeals

➢ Producers have asked: "What sort of information can they present that would be considered legitimate and compelling in an appeal process?"

➢ The Yellowstone County appeal decision appears to question the process and could result in inequities with other counties

Final Comments

The revised productivity ratings have generated much concern in the agricultural community. Since the productivity ratings had not been changed for about 40 years something needed to be done. However those being taxed must believe that their taxes have been fairly calculated and assessed. Of course not every one can be satisfied, but if there is not a general perception of equitable treatment, the process and the government looses credibility. The veracity of the process needs to reviewed and then the process needs to be explained to the taxed and policy makers in detail. Transparency is one of the keys to credibility.

Class 4 Residential: Housing Prices

Housing prices have been very volatile and suffered the first substantial decline in many years. The house price decline has been substantial and extended. US wide the decline began in the second quarter of 2007 with house prices now at about 34% of their peak (see Figure 3).

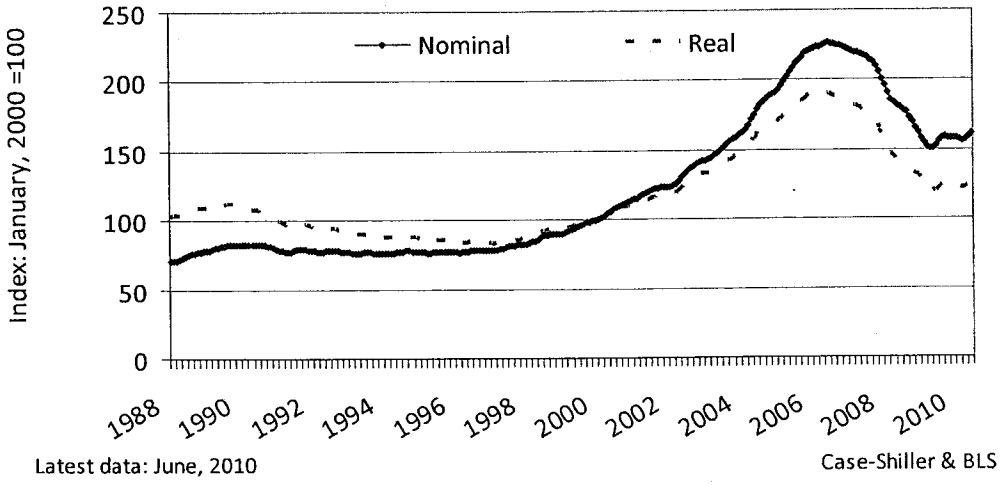

Figure 3. Case-Shiller 10 City House Price Index.

The house price declines are much different by region of the country with Arizona, California, Florida, Nevada, and Michigan having more precipitous declines. While Montana's decline has been lower, the decline has affected the economic well being of our citizens. The beginning of the house price decline varied by region. In general, the Montana's housing price peak was later than the national average. The housing price peaked earliest in the western part of the state and then moved eastward. In Table 2, notice that Idaho peaked first, then Missoula, then Great Falls and Billings, and then North Dakota. Our cursory investigation suggests that Miles City and Sidney are more similar to North Dakota which continues to have substantial house price increases.

Table 2. Housing Prices, 2007-2009.

	Peak House Prices	
	Quarter	**Year**
U.S.	2	07
Montana	4	08
Missoula, MT	3	08
Idaho	2	08
Great Falls, MT	4	09
Billings, MT	4	09
Wyoming	1	09
North Dakota	Still Increasing	
South Dakota	4	08

Federal Housing Finance Agency

Future housing prices are difficult to predict. Often Montana economy lags behind the rest of the nation with our down turns and recoveries occurring later. Given that national foreclosures are continuing at a high rate (see Table 3), we are unlikely to see a substantial national recovery in 2011. If such is the case then Montana's house price recovery may not begin until well into 2012.

Table 3. Foreclosures Per 1,000 Homes in October 2010.

U.S. 2.57		MT 0.70	
Highest Foreclosure State			
NV	12.66	UT	3.86
FL	6.45	GA	3.69
AZ	6.06	ID	3.58
CA	4.98	IL	3.22
MI	3.86	CO	2.67

The 2008 snapshot of housing prices is coincidental with the housing price peak for most of Montana. With the expected added decline in housing prices, the 2008 prices will become even less representative. Furthermore, the future house price movements will likely to continue to be disparate.

Given the higher unemployment rates and economic turndown it is important that homeowners be treated with particular sensitivity. Housing (and jobs) continues to be the keys to an economic recovery. While property taxes are not the crux of the housing problem, let's be careful not to aggravate the current plight of houseowners.